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TO AMEMBASSY SANTIAGO

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FOLLOWING REPEAT LONDON 2583 SENT SECSTATE DATED FEB 19.

QUOTE

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E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: REQUEST FOR INFORMATION RE COPPER MARKET --
MARKET OUTLOOK

REF: A) STATE 34131; B) EMBASSY-EB/ISM & EB/IFD TELCON

1. AS DISCUSSED IN TELCON (REF B), THIS CABLE PROVIDES A BRIEF SURVEY OF COPPER WIREBAR MARKET PROSPECTS FOR 1975 AND 1976, BASED ON HMG AND TRADE SOURCES. CONCERNING REQUEST IN REF (A) FOR A DETAILED INDUSTRY AND MARKET ANALYSIS, WE ARE UNABLE TO PROVIDE AN IN-DEPTH STUDY ON SHORT NOTICE; HOWEVER, WE HAVE BEEN IN TOUCH WITH THE COMMODITIES RESEARCH UNIT (CRU), A LONDON-BASED ORGANIZATION WHICH HAS DONE A NUMBER OF STUDIES IN THIS FIELD (INCLUDING PRICE PROJECTIONS ON FIFTEEN MONTH BASIS). CRU, WHICH LISTS OPIC (ALUMINUM), THE US BUREAU OF MINES, KENNECOTT AND ANACONDA AMONG ITS CUSTOMERS, SUGGESTED THAT DEPARTMENT MAY WISH TO APPROACH ITS NEW YORK OFFICE

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(LOUIS PERLMAN OR ROBERT LESMAN, TELEPHONE 212-371-8300)

FOR ASSISTANCE.

2. CONCERNING MARKET PICTURE, PRICES FOR LME WIRE-BAR ROSE IN EARLY 1974, FROM A JANUARY MEAN CASH PRICE OF POUNDS STERLING 913.22 PER METRIC TON TO 1267.73 IN APRIL. PRICES DECLINED THEREAFTER, REACHING A LOW MEAN PRICE OF 553.24 IN DECEMBER. THE DECLINE CONTINUED INTO JANUARY, TO 512.40. CLOSING PRICE ON FEBRUARY 19, MORNING SESSION WAS 538.9 AND THREE MONTH PRICE, 546.5.

3. OUTLOOK FOR 1975 AND 1976 WAS DESCRIBED BY UK DEPARTMENT OF INDUSTRIES OFFICIAL AS "UNCERTAIN," WITH FURTHER DECLINES CERTAINLY POSSIBLE BUT BY NO MEANS SURE. HOWEVER, THERE IS A FAIRLY WIDELY HELD VIEW IN THE TRADE (I.E., AMONG LME MEMBERS) THAT THE MARKET HAS BOTTOMED OUT, BUT WITH NO IMMEDIATE PROSPECT FOR AN UPSWING. ONE SOURCE TOLD EMBOFF HE EXPECTS BETTER THAN 50-50 CHANCE THAT MARKET WILL BE CLOSE TO STATIC FOR BALANCE OF 1975, WITH VARIATION FOR THE YEAR ON THE ORDER OF 50 POUNDS STERLING (AS AGAINST A RISE OF 350 POUNDS EARLY IN 1974 FOLLOWED BY A DECLINE OF SOME 700 POUNDS FROM APRIL TO DECEMBER.) HE THOUGHT SOME UPTURN MIGHT DEVELOP IN 1976.

4. FACTORS WHICH WILL BEAR IMPORTANTLY ON THE MARKET INCLUDE:

(A) COURSE OF RECESSION IN INDUSTRIALIZED ECONOMIES. THIS FOCUSES PARTICULARLY ON THE US AND THE SPEED AND EFFECTIVENESS OF US EFFORTS TO INCREASE DOMESTIC ECONOMIC ACTIVITY. HMG SOURCE THOUGHT IN ANY CASE THERE WOULD BE A LAG EFFECT ON COPPER, BUT TRADE SOURCE CLAIMED INDUSTRY STOCKS ARE NOW LOW--AND IF MANAGERS BELIEVE US POLICIES ARE LIKELY TO SUCCEED THEY WILL TRY TO ANTICIPATE ANY US UPTURN BY BEGINNING TO REBUILD INVENTORIES.

(B) STOCKS OVERHANGING MARKET. INDUSTRIAL INVENTORIES MAY BE LOW, BUT STOCKS IN GENERAL ARE NOT. SAME TRADE SOURCE SAID LME STOCKPILE, WHICH DECLINED FROM 290,000 TONS TO 20,000 TONS LAST YEAR, IS ON RISE AGAIN, WITH THE CURRENT LEVEL AT 160,000 METRIC TONS.

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PAGE 03 STATE 042046

JAPANESE BUILD UP WAS CITED BY HMG SOURCE. SUCH OVERHANGS, OF COURSE, TEND TO HAVE A DAMPENING EFFECT ON PRICE.

(C) SUCCESS OF CIPEC. IT IS RECOGNIZED THAT CIPEC THEORETICALLY COULD BOLSTER PRICES BY GOOD SUPPLY MANAGEMENT. ALSO, SOME SORT OF INTERNATIONAL BUFFER STOCK OPERATION MIGHT YET BE PUT INTO OPERATION, WITH SIMILAR

EFFECTS. HOWEVER, LIKELIHOOD OF SUCCESS IS ANOTHER
QUESTION.

5. IN SUM, WHILE THERE ARE VARIABLES WHICH COULD CHANGE
THE OUTLOOK, NO UPTURN SEEMS IN PROSPECT AT LEAST THROUGH
1975 AND EVEN SOME, PROBABLY MODERATE, FURTHER DECLINES
ARE POSSIBLE.

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